

SALES AND USE TAX

SALES AND USE TAX REGISTRATION

Every person who makes taxable retail sales or provides taxable services in Minnesota must obtain a Minnesota tax identification number and register to collect and remit Minnesota sales and use tax. This must be done before making any taxable sales in Minnesota.

You must register to collect sales tax if you make taxable retail sales in Minnesota. This includes sellers outside Minnesota who:

- Have an office; distribution, sales, or sample room location; warehouse or other place of business in Minnesota, either directly or by a subsidiary;
- Have a representative, agent, salesperson, canvasser, or solicitor in Minnesota, on either a permanent or temporary basis, who operates under the authority of the retailer or its subsidiary for any purpose, such as repairing, selling, delivering, installing, soliciting orders for the retailer's goods or services, or leasing tangible items in Minnesota;
- Deliver items into Minnesota in their own vehicles;
- Provide taxable services in Minnesota; or
- Have entered into an agreement with a solicitor for the referral of Minnesota customers for a commission and your gross receipts over 12 months is at least \$10,000.

Affiliates of Minnesota businesses are also required to collect and remit Minnesota sales tax on sales made into Minnesota.

If you sell only nontaxable items, you do not need to register for sales tax.

For more information on who needs to register, see the Sales and Use Tax Instruction Booklet on the Minnesota Department of Revenue's website at www.revenue.state.mn.us/businesses/Pages/Do_I_need_to_register.aspx or call them at (651) 296-6181 or (800) 657-3777.

To obtain a Minnesota tax identification number, go to the Minnesota Department of Revenue's website at https://www.mndor.state.mn.us/tp/webreg/_/ or call (651) 282-5225 or (800) 657-3605.

THE MINNESOTA SALES TAX

Minnesota has a 6.875 percent general sales tax rate. The sales tax applies to retail sales of taxable services and/or tangible personal property made in Minnesota. Businesses collect the sales tax due on items and services sold at retail on behalf of the state. Most retail sales are taxable in Minnesota. A "retail sale" means any sale, lease or rental of tangible personal property for any purpose other than resale, sublease or subrent. A retail sale also includes services for any purposes other than for resale. However, some sales are specifically exempted by law from the sales and use tax. These exemptions are discussed later in this section.

The Department of Revenue has fact sheets on industry specific topics. Fact sheets are available on the Department's website at www.revenue.state.mn.us/businesses/sut/Pages/fact_sheets.aspx.

THE MINNESOTA USE TAX

The use tax complements and is similar to the sales tax. It applies when you buy, lease or rent taxable items on services used in your business without paying sales tax to the seller. The use tax rate is the same as the sales tax rate. The rate is applied to the cost of the taxable purchases on which the sales tax is not paid. The buyer pays use tax directly to the state. **Both businesses and individuals are subject to use tax.** For more information, request the Department's Use Tax Fact Sheets (Fact Sheet 146, Use Tax for Businesses, or Fact Sheet 156, Use Tax for Individuals).

Common examples of when use tax is due:

- Items purchased outside Minnesota from retailers who do not collect Minnesota sales tax, if the items are for use, storage or consumption in Minnesota.
- Items originally purchased for resale, if the items are taken out of inventory for business or personal use. When items are taken out of inventory, use tax is calculated on the purchase prices of the items.
- Items originally purchased for use in agricultural or industrial production, if the items are put to a taxable use. The use tax must be paid when the item is put to taxable use.
- Items and taxable services purchased from a Minnesota seller who does not collect the sales tax, if the items are put to a taxable use.

Businesses that have registered for sales and use tax should report the cost of the use tax items when they electronically file their sales and use tax return. Individuals must file a Form UT1, Individual Use Tax Return, which is due April 15 following the end of the calendar year. Local use tax is also due if the items are used in an area that imposes a local sales and use tax. Local use taxes are reported on the taxpayer's state return.

LOCAL SALES AND USE TAXES

The Minnesota Department of Revenue currently administers several local sales and use taxes. The general local taxes apply to the same items that are taxed by the Minnesota sales and use tax law. You must be registered for any locality if you do business there.

Local taxes are reported at the same time you report your Minnesota sales and use tax, but the figures are reported separately. You must be registered for each local tax you report.

Local tax applies to sales made or services performed within city limits or county boundaries only. To figure the tax, combine the state tax rate and the local tax rate and apply the combined rate to the taxable sales price.

Local use tax applies when items or services are bought for business or personal use in the local area without paying local sales tax to the seller. Use tax is similar to the sales tax and the rates are identical. It is based on the cost of taxable purchases. Common examples of when local use tax is due:

- Items are bought outside the local area and the seller doesn't charge local sales tax, and then the item is used for business or personal use in the local area;

- A taxable item is bought for your business from an out-of-state seller who does not charge or collect local sales tax.

Expanded information on local sales and use tax is available from the Minnesota Department of Revenue.

EXEMPTION CERTIFICATES

Generally, all sales of taxable items and taxable services are presumed to be subject to the sales tax. However, certain customers are not required to pay the tax at the time of purchase. To show they are authorized to buy goods without paying the tax, these customers must give the seller a completed Certificate of Exemption, Form ST3.

Unless the customer gives the seller a completed exemption certificate, the seller is required to collect the sales tax. It is not sufficient for the customer to provide only its sales and use tax number. Certificate of Exemption, Form ST3, is available on Department of Revenue website, at Sales and Use Tax forms and Instructions. See www.revenue.state.mn.us/businesses/sut/Pages/Forms.aspx.

An exemption certificate may be for either a single purchase or a blanket exemption. Customers who frequently make exempt purchases from one seller should give that seller a blanket exemption certificate to cover future purchases. That way, the seller will not need to collect a new certificate each time the customer makes a purchase.

A completed exemption certificate should be retained in the seller's files to substantiate the exemption. Certificates are subject to inspection by the Department of Revenue, but they should not be mailed to the department.

EXEMPTIONS AND EXEMPT ORGANIZATIONS

Certain sales are exempt from sales and use tax. Exemptions commonly encountered by Minnesota businesses are listed below. Detailed information on the exemptions may be obtained from the Minnesota Department of Revenue website at www.revenue.state.mn.us/businesses/sut/Pages/Tax-Information.aspx.

Food, Clothing and Prescription Drugs

Generally, the sale of clothing, prescription drugs and most food is exempt from the sales and use tax. However, the exemption for sales of food does not apply to prepared food purchased from restaurants, bars, delicatessens or caterers, or from vending machines, and it does not include candy, soft drinks or dietary supplements.

Refund for Tax Paid On Capital Equipment Purchases

Purchasers of “capital equipment” as defined in Minn. Stat. § 297A.68, subd. 5, may be eligible for a refund of the sales tax paid at the time of purchase. The sales or use tax must first be paid at the full rate. The purchaser may then file a claim for refund (Form ST11) with the Department of Revenue for the sales or use tax paid. Beginning July 1, 2015, purchases of qualifying capital equipment are exempt upfront.

In order to qualify for the refund, the capital equipment must be used by the purchaser or lessee primarily for manufacturing, fabricating, mining, or refining tangible personal property to be sold ultimately at retail, or for electronically transmitting results retrieved by a customer of an on-line computerized data retrieval system. Capital equipment includes all machinery and equipment that is essential to the integrated production process; also included are repair and replacement parts, materials used for foundations that support machinery or equipment, and materials used to construct and install special purpose buildings used in the production process.

Resource Recovery

An exemption from sales and use tax is allowed for purchases of equipment used for processing solid or hazardous waste at a resource recovery facility. Such an exemption requires prior approval by the Minnesota Department of Revenue. For more information, contact the Minnesota Department of Revenue, Sales and Use Tax Division.

Sales to Non-Profit Organizations

Nonprofit organizations may, in certain instances, be exempt from paying sales tax. The exemption only applies to groups organized exclusively for charitable purposes, senior citizen groups and religious and educational organizations. This exemption applies to purchases made by the nonprofit organization; it does not allow them to sell items without collecting sales tax. To apply, use Form ST16, *Application for Sales and Use Tax Exempt Status*.

The exemption does not apply to the purchases of meals, lodging, or motor vehicles, and also does not apply to the additional 9.2 percent tax or 5 percent fee on short term rental of vehicles. Qualifying exempt organizations must provide a completed certificate of Exemption, Form ST3.

Sales to Government Agencies

Sales to the federal government and its agencies are not taxable. The federal agency must give the seller a purchase order, payment voucher, work order, or completed Form ST3, Certificate of Exemption, to purchase exempt from tax. Sales to employees of the federal government are not exempt from sales tax.

Although sales made directly to the State of Minnesota are not exempt from sales tax, Minnesota State agencies use a direct pay authorization. This means that state agencies do not pay the tax to the seller, but instead pay the tax directly to the Department of Revenue. Purchase orders used by Minnesota State agencies contain information about the direct pay authorization, so it is not necessary for vendors to obtain a copy of it. There are exceptions to the use of direct pay

authorization. Sellers of prepared food or beverages, lodging and related services, admissions to amusement or athletic events, motor vehicles or certain services to the State of Minnesota must collect sales tax on those sales from the purchasing Minnesota State agency.

Starting January 1, 2014, cities and counties **became** exempt from sales and use tax on purchases used in providing certain government services. Townships have had this exemption since October 1, 2011. To claim the exemption, these purchasers must provide a Certificate of Exemption (Form ST3) to their sellers. However, sales of prepared food, candy, soft drinks, alcoholic beverages or lodging to those entities are not exempt.

FILING THE SALES AND USE TAX RETURN

A sales and use tax account is set up on either a monthly, quarterly or annual filing basis depending on how much tax is owed each month.

Annual Filing. Tax must average less than \$100 per month.

Quarterly Filing. Tax must average less than \$500 per month.

Monthly Filing. Tax average is \$500 or more per month.

Seasonal Filing. If the business is not open year-round, request seasonal filing. With seasonal filing you only need to file returns for those periods when the business is open.

One-time Filing. If you will be making taxable sales in Minnesota at only one event or during one month, ask for one-time filing. Do not apply for one-time filing if you plan to make taxable sales in the future.

If the amount of tax you report is consistently higher or lower than the limits, you can change your filing cycles when you log into e-Services Minnesota to file or pay taxes. If internet service is not available, contact the Minnesota Department of Revenue.

You will not receive a notice to remind you to file your return or pay the tax due. The following are the due-dates:

Monthly Filers. 20th day of the following month.

Quarterly Filers. April 20, July 20, October 20 and January 20.

Annual Filers. February 5 of the following year. Annual filers must file on a calendar-year basis, not a fiscal year basis.

Unregistered Individuals Filing Annual Return. April 15 of the following year.

Payments must be electronically received or postmarked by the due date. If the due date falls on a legal holiday or weekend, the return is due the next business day.

Mandatory electronic payment. Taxpayers who have a sales and use tax liability of \$10,000 or more in the state's fiscal year (July 1 - June 30) must file all taxes electronically starting with the next calendar year.

Associated payers. If you are required to electronically pay any business tax type to the Department of Revenue, you must pay all business taxes electronically.

June accelerated payment. The June accelerated payment is due two business days before June 30, and the remaining payment and return for June is due August 20. See the Sales and Use Tax Instruction Booklet for more information on the June accelerated payment.